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Brock Leaves USTR; Congress Continues Attack on Japan

United States Trade Representative William E. Brock has been nominated by President Reagan to succeed outgoing secretary Raymond Donovan as head of the Department of Labor. The timing of the appointment, however, risks derailing ongoing negotiations with Japan and losing some of the momentum that had been generated for a new round of international trade negotiations.

Mr. Brock accepted the nomination reluctantly. Observers suggest that the senior trade negotiator hoped to remain in his position at least until major trading nations agreed to an agenda for a new multilateral negotiating round and trade relations with Japan returned to a more satisfactory basis. However, his proven talents as a political operative -- he is given considerable credit for enhancing the image of the Republican Party among voters in 1980 -- were sought by the administration to establish ties with organized labor before the 1986 congressional elections. Domestic political

overvalued, as ours is now," and concluded that these obstacles have cost the U.S. economy 400,000 jobs and $12 billion in American sales to Japan.

In a related development, the Congressional Budget Office (CBO) released on March 22 the first installment of a three-part study on the effects of an import surcharge on the U.S. economy. CBO concluded that a 20 percent duty across the board probably would invite immediate retaliation by American trading partners and produce significant negative effects on the domestic economy while having only a marginal impact on imports. Even assuming no foreign retaliation -- a shaky premise according to CBO unless U.S. trade partners perceived the extra tariff as truly short term and temporary -- a surcharge would strengthen the dollar, further complicating American sales efforts abroad. By shifting resources from efficient, export-oriented industries to less efficient, import-competing industries, prices in domestic markets would rise.

If a surcharge was truly temporary, CBO analysts argued, consumers would either delay purchases or simply pay higher prices for imported products. This would counteract the shift toward import-substitution industries. Furthermore, with the dollar soaring on international markets, overseas producers could easily absorb the surcharge. "The most likely outcome," the report concluded, "is that almost everyone would be worse off."

CBO supplied little numerical data in this initial survey, providing a qualitative rather than quantitative assessment of the possible impact of an import surcharge. Employment effects, for example, were not substantiated to any great degree. More detailed examinations of the surcharge issue by the CBO, in addition to an independent assessment by the Congressional Research Service, are expected in the next four to eight weeks.

Michael Chinworth

Japan's GNP Rebounds in Fourth Quarter

The Japanese economy came roaring back in the last three months of 1984, chalking up its biggest quarterly real (inflation-adjusted) gain of the year. Led by continued strong foreign trade growth, all of the non-governmental components of gross national product (GNP) moved ahead in 1984's final quarter (see table for details), pushing the economy to its best annual performance since 1973. Although the solid showing relieved many observers concerned by an abrupt third-quarter slowdown, the economy remains vulnerable because of its high reliance on foreign trade.

The net external sector's impressive quarterly gain resulted from a resurgence of exports combined with a decline in imports. Japanese observers have attributed the erratic behavior of imports over the last three quarters to heavy July-September purchases of crude oil that fueled the 32 percent quarterly jump, leading to an 18 percent final-quarter drop in imports. According to Finance Ministry trade statistics, however, the volume of oil imports varied only slightly during the last three quarters of 1984, casting doubt on the oil import explanation. Strong consumer demand in the United States probably made a large contribution to the export rebound, although economic improvements in European countries certainly played a role.

Japan's Real Gross National Product at Constant (1975) Prices

(in billions of yen, seasonally adjusted, quarterly totals and rates of growth at annual rates)

	1983	1984	January-March 1984	April-June 1984	July-September 1984	October-December 1984
Gross National Product	Y210,903.5 (3.4%)	Y223,050.6 (5.8%)	Y217,927.5 (5.9%)	Y221,934.9 (7.6%)	Y223,366.6 (2.6%)	Y228,540.9 (9.6%)
Personal Consumption Spending	110,702.4 (3.4%)	113,708.4 (2.7%)	112,899.1 (3.7%)	113,323.8 (1.5%)	114,054.3 (2.6%)	114,354.5 (1.1%)
Private Residential Construction	10,060.0 (-5.9%)	9,982.6 (-0.8%)	9,958.3 (-6.0%)	9,826.1 (-5.4%)	9,965.3 (5.8%)	10,198.7 (9.7%)
Private Fixed Nonresidential Investment	36,366.0 (3.4%)	40,392.7 (11.1%)	38,716.6 (12.0%)	39,678.7 (10.3%)	40,658.3 (10.2%)	42,343.3 (17.6%)
Change in Business Inventories	869.4 (-52.8%)	1,190.3 (36.9%)	834.6 (-276.1%)	1,155.2 (267.0%)	1,485.9 (173.7%)	1,282.2 (-80.4%)
Government Current Expenditures	19,728.6 (2.9%)	20,160.8 (2.2%)	19,991.6 (3.6%)	20,152.2 (3.3%)	20,270.8 (2.4%)	20,235.4 (-0.7%)
Government Fixed Investment	18,359.9 (-0.6%)	18,091.3 (-1.5%)	17,632.7 (-11.5%)	18,368.9 (17.8%)	18,504.7 (3.0%)	17,964.1 (-12.6%)
Change in Government Inventories	-320.2 (*)	92.7 (*)	-74.5 (*)	6.4 (*)	488.0 (*)	-47.5 (*)
Net External Sector	15,137.4 (26.6%)	19,431.8 (28.4%)	17,969.5 (47.9%)	19,423.6 (36.5%)	17,939.3 (-37.4%)	22,210.2 (135.0%)
Exports of Goods and Services and Factor Income Received	42,353.5 (4.7%)	50,037.6 (18.1%)	47,208.2 (19.6%)	49,462.1 (20.5%)	50,166.9 (5.8%)	53,141.9 (25.9%)
Imports of Goods and Services and Factor Income Paid	27,216.1 (-4.5%)	30,605.7 (12.5%)	29,238.7 (5.6%)	30,038.5 (11.4%)	32,227.6 (32.5%)	30,931.7 (-17.8%)

*Cannot be calculated or meaningless.

Source: Economic Planning Agency

Private domestic demand put in a better performance in the fourth quarter, led by strong private fixed investment and housing construction. The increase in homebuilding particularly pleased Japanese observers and almost erased the contractions in 1984's first two quarters. Although private plant and equipment investment moved up smartly, much of it remained linked to the export sector. And while personal consumption continued to rise, the low 1.1 percent showing was disappointing in light of the holiday buying season.

The public sector did not play a stimulative role in the last three months of 1984, reflecting the austere fiscal policies pursued by the Nakasone administration. The government's overall contribution to growth in 1984 was similarly non-stimulative. Growth of current expenditures was less than the previous year and fixed investment shrank at a more rapid pace.

The importance of foreign trade is evident from the figures for the whole of 1984, which show economic growth paced by exports and private nonresidential investment. The net external sector increased its share of GNP from 7.2 percent in 1983 to 8.7 percent. In the fourth quarter, foreign trade generated 83 percent of the quarterly growth. Nonetheless, domestic components accounted for 64 percent of the economy's annual growth last year, according to Japan's Economic Planning Agency (EPA).

EPA predicts that the economy will continue to grow in the first quarter of 1985, although at a slower rate. A reduction in the growth of private investment and exports will not prevent the economy from fulfilling the government's forecast 4.6 percent gain in real GNP for fiscal 1984 (ending March 31, 1985). There is some optimism on other fronts also. The upswing in housing construction should continue, despite recent signs that interest rates may rise. A gradual revival of personal consumption is predicted on the basis of a favorable outcome to the annual spring wage negotiations. In sum, the Japanese economy put in a stellar performance for 1984 and seems positioned for continued growth in 1985.

Jon Choy

Japan Moves on Protection of Software and Microchips

In another bid to reduce U.S.-Japan tensions, the Ministry of International Trade and Industry (MITI) and the Ministry of Education (MOE) have reached a compromise on legislation similar to the United States' to safeguard computer software programs. Japanese negotiators announced the decision at working-level talks on electronics trade held in Tokyo March 18 and 19. In addition, Tokyo's proposal to extend protection to microchip designs is also making progress. Washington welcomed the announcements, but trade officials remain cautious since the contents of the bills have not been finalized.

The question of how to safeguard the rights of software authors has been an issue in U.S.-Japan relations since December 9, 1983, when a MITI advisory council advocated a system significantly different from U.S. practice (see JEI Report No. 1B, January 6, 1984). In brief, the ministry's proposal would have established a new legal domain for software that gave the author the right to

outcome of the critical telecommunications talks is not clear, any move to improve the atmosphere should help to defuse the situation.

Jon Choy

Sino-Japanese Trade Booms

Stepped-up two-way trade during 1984 solidified Japan's position as China's largest trading partner and pushed bilateral trade to record levels. Japanese imports from China increased by just over 17 percent, rising from $5.1 billion in 1983 to more than $5.9 billion last year, while exports rose nearly 50 percent, or from $4.9 billion to $7.2 billion. These increases mark the second consecutive annual expansion of bilateral trade.

Japan's sales to China were aided by boosts in machinery and equipment exports, which increased two and a half times. Exports of chemicals were also up, rising by nearly a fifth. Most export categories, in fact, experienced double-digit increases during the year. Textiles led gains on the import side, followed by agricultural and industrial raw materials (see tables accompanying this article for details).

Japan's trade with China boomed in the late 1970s, only to peak in 1981 at just over $10 billion. A precipitous decline occurred the next year because of China's cancellation of four major heavy industry projects, reflecting both the country's internal political turmoil and policy shifts to emphasize agricultural development. Sino-Japanese trade ties over the last two years, however, have been characterized by pragmatic considerations, resulting in increases in total bilateral trade of 12.8 percent in 1983 and 31.7 percent in 1984.

* * *

Japan's Trade Balance With China
1979-1984

	Exports	Imports	Balance
1979	$3,698.7	$2,954.8	$743.9
	(21.3%)	(45.5%)	
1980	5,078.3	4,323.4	754.9
	(37.3)	(46.3)	
1981	5,095.5	5,291.8	-196.3
	(0.34)	(22.4)	
1982	3,510.8	5,352.4	-1,841.6
	(-31.1)	(1.1)	
1983	4,914.1	5,087.1	-173.0
	(40.0)	(-5.0)	
1984	7,216.7	5,957.6	1,259.1
	(46.9)	(17.1)	

* * *

Trade patterns in 1983 and 1984 reflect the complementary nature of the two economies. Under previous regimes, the People's Republic may have been concerned about the rapid growth of Japanese exports to China, but it appears that the current leadership, while encouraging Japanese investment to modernize its resource industries and manufacturing capabilities, will not take steps to stem Japanese exports to the country. This generally positive atmosphere, characteristic of China's vow to restore a sense of capitalistic competition to the economy to enable it to play a larger global economic role, could help maintain the trend toward increasing two-way trade.

Japan's Trade with China, 1982-1984

(in millions of dollars; exports f.o.b., imports c.i.f.)

	1982	1983	1984
Total Exports	$3,510.8	$4,914.1	$7,216.7
Textiles	367.9	286.3	382.6
	(-38.6)	(-22.2)	(33.6)
Chemicals	469.8	509.9	610.2
	(-10.2)	(8.5)	(19.7)
Metals and Metal Products	1,354.3	2,432.8	2,842.8
	(8.4)	(79.6)	(16.9)
Machinery and Transport Equipment	1,067.1	843.5	2,961.4
	(-56.1)	(-21.8)	(251.1)
Total Imports	5,352.4	5,087.1	5,957.6
	(1.1)	(-5.0)	(17.1)
Food	504.4	522.6	849.0
	(-9.3)	(3.6)	(20.6)
Textile Materials	176.9	208.2	286.4
	(9.1)	(17.7)	(37.6)
Mineral Fuels	3,061.4	2,778.6	3,093.1
	(4.3)	(-9.2)	(11.3)
Textiles	572.8	621.5	888.0
	(3.9)	(8.5)	(42.9)
Chemicals	230.1	218.1	231.2
	(-5.9)	(-5.2)	(13.6)

Note: Figures in parenthesis indicate the percentage change from the previous year.

Source: Japan Tariff Association, Summary Report: Trade of Japan

One sore point with China -- Japanese investment -- has also changed significantly. Although still lagging behind the United States and Hong Kong in terms of numbers of investment projects, Japan's joint ventures in China rose from only 9 in 1983 to 23 by November 1984.

Last year's strong growth in bilateral trade, the prospect of continued political stability, and the likelihood of consistent trade policies in China have led a Japanese research institute to predict that exports to China will increase another 20 percent in 1985, coupled with a 10 percent growth in

imports. Contributing to this optimistic outlook is the fact that Japan's exports to China accelerated in each quarter of 1984, beginning at $1.4 billion in the first quarter and rising to $2.5 billion-plus by the end of the year.

Michael Chinworth

Japan's Car Exports: The Guessing Game Continues

When President Reagan announced March 1 that he would not ask Tokyo to extend restraints on shipments of Japanese-made cars to the United States for a fifth year, he set the stage for a month-long guessing game in Washington and Detroit: how many additional cars will Japan's automotive manufacturers export to this country in the year starting April 1. Industry analysts, American car makers, union representatives, Reagan administration trade officials and congressional leaders have all mapped out different scenarios, but since most people assume that Japanese auto companies will tailor their U.S. sales strategies to minimize the chances of a protectionist backlash, there is something close to a consensus on the level of shipments in the April 1985-March 1986 period.

In this view, Japan's top three exporters can live with fairly modest increases in shipments. Their main goal, it is argued, is to have adequate inventories in the United States so that skimpy stocks will no longer cost them sales. Honda Motor Co., Ltd. has the most flexibility of this trio since 150,000 Accords a year are rolling out of its Marysville, Ohio plant. Nissan Motor Co., Ltd. will also gain a little maneuvering room as its factory in Smyrna, Tennessee phases in production of the Sentra from this week. The only way Toyota Motor Corp. can expand U.S. sales, however, is by upping exports because all of the output of New United Motor Manufacturing Inc. goes to its partner, General Motors Corp.

Mazda Motor Corp. and Fuji Heavy Industries, Ltd., the manufacturer of Subaru vehicles, are said to be eyeing slightly bigger increases than their larger competitors. They, too, have had to contend with the problem of short car supplies. Perhaps more importantly, both companies feel shortchanged by the quota allocation formula in effect for the past four years, which they maintain has bolstered the already strong U.S. sales position of Toyota, Nissan and Honda.

The wild cards in everyone's forecasts are the three Japanese auto companies that build cars for American makers. It is reported that General Motors wants to source 150,000 subcompacts from Isuzu Motors, Ltd. and 84,000 minicars from its other Japanese affiliate, Suzuki Motor Co., Ltd., over the next twelve months for sale under the Chrevolet nameplate -- a big jump from the present 30,000 Isuzu vehicles and 17,000 Suzuki-made cars but still short of GM's original import plans. For its part, Chrysler Corp. has placed a "firm order" for up to 200,000 more cars built by Mitsubishi Motors Corp., which in the year through March 1985 supplied 87,000 Dodge and Plymouth cars. The Japanese auto maker would also like to ship more cars to the United States for sale under its name, as would Isuzu, another relative newcomer to the American market.